

AGENDA

Governor's Working Group on Highway Funding

Thursday, September 3, 2015

1:30 PM

Room 151, State Capitol
Little Rock, Arkansas

Duncan Baird, Chair
Scott Bennett
Alec Farmer
Rep. Dan Douglas
Sen. Bill Sample
Rep. Andy Davis
Rep. Prissy Hickerson
County Judge Jerry Holmes
Mayor Harold Perrin
Randy Zook

Philip Taldo
Dr. Brett Powell
Larry Walther
Guy Washburn
Shannon Newton
Charles Weaver
Craig Douglass
Jackson Williams
Frank Scott, Jr
Dr. Robin Bowen

A. Call to Order

Duncan Baird, Chair

B. Follow-up Discussion from Last Meeting

a. AHTD Detailed Spending Plan

Scott Bennett, Director, AHTD

b. Arkansas' Underground Storage Tank (UST) Programs

Joe Hoover, Chief, Regulated Storage Tanks Division, ADEQ

c. State Central Services Fund

C. Examination of Other State's Actions

a. Georgia, South Carolina, South Dakota, Utah

Duncan Baird, DF&A

D. Discussion and Determination of Short-Term Funding Options for Arkansas

E. Closing Remarks

Governor's Working Group on Highway Funding

Minutes of August 20, 2015 Meeting
Arkansas State Capitol Room 149
1:30 p.m.

Action items are highlighted in yellow and also summarized at the end of this document.

In Attendance:

Duncan Baird, Chair	Rep. Prissy Hickerson	Guy Washburn
Scott Bennett	Judge Jerry Holmes	Shannon Newton
Alec Farmer	Randy Zook	Craig Douglass
Rep. Dan Douglas	Philip Taldo	Jackson Williams
Sen. Bill Sample	Dr. Brett Powell	Frank Scott, Jr.
Rep. Andy Davis	Larry Walther	

Agenda Item A – Call to Order

- Duncan Baird, Chairman, called the meeting to order.
- Arkansas Highway Commissioner Frank Scott, Jr. recognized former Highway Commissioner and former U.S. Secretary of Transportation, Rodney Slater, who was in attendance at the meeting.
- Chairman Baird thanked all those involved for the members' feedback from the previous meeting. He stated that Tori Gordon and David Bell were compiling a list from feedback received to obtain a starting point for the group.
- During the July 23 meeting, several questions were presented to the Department of Finance and Administration. The answers to those questions were distributed to the members.
- Upcoming meetings were announced for:
 - ✓ September 3 – 1:30 p.m.
 - ✓ September 17 – 1:30 p.m.
- October 8 – National Governor's Association will meet in Arkansas for a two-day conference that will feature a presentation on Public Private Partnerships (P3s).

Agenda Item B – Discussion of AHTD Targets and Set Working Group Goals

- Chairman Baird referenced the short-, mid-, and long-term target information provided by the Arkansas Highway and Transportation Department (AHTD) at the July 23 meeting and opened the floor to discussion.
- Suggestions and input were as follows:
 - ✓ Representative Davis suggested the group focus on short-term goals over the course of the next few meetings and agree on the amount of the immediate needs.
 - ✓ Representative Hickerson also would like to narrow in on short-term goals. Asked if the committee could be extended past the December deadline to focus on long-term needs.
 - ✓ **Chairman Baird stated that he would check on the possibility of this request.** However, he also emphasized that the Governor wants the group to consider everything, and accomplish as much as possible by the deadline.
 - ✓ Larry Walther stated that the group needs to focus on the short-term immediate needs, but ask the Governor for extension if needed. Mr. Walther asked what the Governor was expecting from the group by the December deadline. Chairman Baird stated that the Governor wants the group to present him with a menu of options. The executive order reads the group “shall provide recommendations to the Governor for the State to create a more reliable, modern, and effective system of highway funding by December 15th”.
 - ✓ Frank Scott recommended going forward with short-term goals, and then move on to long-term goals and provide a menu of options to the Governor.
 - ✓ Frank Scott recommended setting the following range for each level as net to the AHTD, rather than a fixed dollar amount:
 1. Short-term – \$ 115 million to \$ 130 million
 2. Mid-term – \$ 150 million to \$ 200 million
 3. Long-term – \$ 200 million to \$ 275 million
- Craig Douglass stated that these ranges should be seriously considered and set. A quantifiable goal needs to be established in order to move forward. **More clarification is needed from AHTD to clearly identify how the revenue would**

be used to inform the public of the benefits that would be realized. AHTD Director Scott Bennett stated that the needs that could be addressed in broad terms were supplied in the report given to the members at the July 23 meeting. However, AHTD will prepare a more detailed and concise document for the member's information before the next meeting. In general, funds would be used as follows:

1. Short-term – Matching Federal-Aid Funds, System Preservation
2. Mid-term – Enhanced Maintenance
3. Long-term – Capital Improvements that will Enhance Economic Development

- ✓ Senator Sample questioned if short-term needs were considered immediate needs. Director Bennett responded that some are immediate needs (matching current Federal-aid funds to cover deficit). \$110 million would satisfy those immediate needs and provide funds to last for several years. Federal funds are much less flexible than State funds.
- ✓ Philip Taldo asked if long-term funding was needed for long-term projects. Director Bennett responded that some long-term projects are contingent upon long-term funding. Short-term funding will include long-term projects that are already under development. The majority of the Federal part of the highway program will be used for the long-term projects that are already under development. However, some long-term goals cannot be met even with long-term funding. Reasonable long-term goals are:
 1. System Preservation
 2. Completing the 4-lane Grid System
 3. Building Economic Development Connectors
- ✓ Representative Davis stated that he was expecting a lower range on the short-term goal and he questioned the time frame for this range. Director Bennett responded that the short-term time frame is 2 years and the funds would be used to match Federal funds and maintain the system. Delaying adequate maintenance to roads and bridges often results in requiring more major construction projects needed to repair the damage.
- ✓ Chairman Baird set the short-term focus for approximately 2 years in the \$110 range, net to AHTD. AHTD will provide information on what this amount will accomplish.

Agenda Item C – Update on House and Senate Transportation Committees Meeting

- Representative Hickerson, Chair of the House Transportation Committee reported on the meeting held August 10.
 - ✓ A summary of legislation from the 90th General Assembly was presented.
 - ✓ Two interim studies were approved:
 1. Online motor vehicle insurance verification system; and
 2. Reduction in the size of the highway system.
 - ✓ Highway turnback reporting from cities and counties was received.
 - ✓ An update was given on the Governor's Working Group progress.
 - ✓ Director Bennett provided an update on the Highway Trust Fund and projects that have been delayed due to funding uncertainty.
 - ✓ Director Bennett discussed the Department's use of chip seal as an alternative to traditional overlay to maximize funding.
 - ✓ Representative Douglas shared information from a meeting he recently attended for the National Council of State Legislatures (NCSL) in Seattle that addressed the Highway Funding shortfall. Representative Douglass gave a brief report of actions taken recently by other states:
 - 17 have increased motor fuel taxes
 - 7 have increased or implemented an alternative fuel vehicle tax
 - 4 have increased vehicle registration fees
 - 2 have increased or implemented a wholesale motor fuel tax
 - 2 have increased toll fees
 - 2 have increased or transferred the sales tax on transportation related items
 - 2 implemented measures related to indexing motor fuels
 - 2 enacted a general sales tax increase directed to transportation
 - 1 enacted heavy vehicle fee increase
 - 1 increased the hotel tax
 - 1 increased the "sin" tax on alcohol/tobacco products

Agenda Item D – Discussion of Other States' Actions Regarding Highway Funding

- Guy Washburn commented that he liked the way Georgia provided detailed information on where the additional funding would be used and it might be a good example to follow.
- Representative Davis stated that looking at what other states have done – it is helpful to look at a more global view at the state's overall tax policy. He also cautioned on comparing like taxes and we need to consider the states' flexibility.
- Randy Zook reminded the group that Arkansas now has the second highest combined local and state sales tax rate in the country; only Tennessee is higher.
- Craig Douglass pointed out that the per gallon tax on motor fuel was the most consistent revenue source among the states because it is fair and equitable to all users – the more you use, the more you pay. He also noted that had a 10-cent per gallon fuel tax increase been implemented August 1, motorists would still be paying less for a gallon of gas today because the retail price of fuel had declined more than 10 cents. He stated that raising the motor fuel tax is one of the few things that could be done quickly that would provide significant revenue for short-term needs.

Agenda Item E – Highway Funding Structural Reforms

- Chairman Baird opened the floor for discussion.
- **Local Accountability:**
 - ✓ Representative Davis started by reminding the group that cities/counties receive 30% of all highway funding through turnback, but it was difficult to determine where that money is spent. The cities, in particular, have no standardized method of accounting for those funds. Statutes exist that stipulate what can and cannot be done with those funds, but the statutes are not clear and are broadly interpreted. We need to make sure the money designated for city and county roads is going to the roads and is well spent. Representative Douglas agreed that we need greater accountability from the cities and counties on the use of turnback funds. Other comments were as follows:
 - Blue Ribbon Committee recommendation was to require reporting information for city and county turnback.
 - Increased transparency is needed.

- Legislative audit cannot take a look at city and county road funds and verify with certainty how the funds are spent.
 - Counties have a standardized system.
 - ✓ Philip Taldo stated that he believes we need more public/public partnerships in the state. He thinks if a municipality is willing to invest in itself through a highway project, then that project should be expedited. Director Bennett explained that the AHTD has had a formal partnering program available to local governments since 2005. Chairman Baird asked if cities and counties were aware of this program, and Director Bennett indicated they were. Mr. Taldo believes the current AHTD partnering program needs more structure, and Chairman Baird asked Director Bennett to provide an overview of the AHTD's partnering program for the next meeting on September 3. This overview will include which entities have partnered with AHTD and to what extent. Other comments were as follows:
 - Partnering Guidelines were adopted in 2005 – very general, no formula that indicates dollar amounts.
 - Since 2005, local governments have partnered around \$115 million, with \$120 scheduled over the next few years.
 - Partnering – cash to put toward construction, purchase right-of-way, relocating utilities, taking over stretch of highway.
 - Not every city/county has the resources to partner with the Department.
- **Size of State Highway System:**
 - ✓ The next point of discussion was to be the size of the state highway system, but Chairman Baird noted that Representative Hickerson already reported to the Working Group that that topic was being undertaken as an Interim Study by the Joint House and Senate Transportation Committee.
 - **Allocation of Highway Funding**
 - ✓ Chairman Baird then moved into a discussion of the allocation of existing highway funding; should it remain 70/30 or should it change? Is new funding treated differently than existing funding? Frank Scott suggested it might be time to discuss if all the funds should be divided 70/30, or could some change to 80/20. Representative Douglas suggested keeping current funding at 70/30, but thinking of other ways to distribute any new funding.

- ✓ Judge Jerry Holmes indicated cities and counties have tremendous transportation needs as well, and it would be very difficult for them to get by with less funding and they could not support a reduction in the turnback.
- ✓ Chairman Baird suggested that the group may look at a scenario where the ratio stayed 70/30 on existing funding, but changed to something else for new funding; OR, keep it all 70/30 if we reduce the size of the state highway system and more miles go to cities and counties; OR go to 80/20 or something else if the size of the state highway system is not reduced.
- ✓ Guy Washburn commented that we really do not have a good handle on the amount of needs on city streets and county roads. He suggested that cities and counties provide better data on the needs they are facing.
- ✓ Director Bennett will report on how the funds for the State Aid for County Roads and City Streets Programs are distributed.

Item F – Other Remarks

- Representative Davis referred to the funnel chart and asked Director Bennett which of the revenue sources shown are not shrinking. Director Bennett responded by saying that the main revenue source for the state that grows naturally with the economy was the sales tax, but it was not shown on the funnel chart. Director Bennett noted that vehicle registration fees are growing because the number of vehicles on the road continues to grow and the recent transition to 3-year renewals. He also noted driver's license fees were increasing because the number of drivers was increasing, but those funds go to State Police.
- Director Bennett discussed the amount of highway money that goes to the Constitutional & Fiscal Agencies/Central Services Fund (CFA/CSF), which increased by about \$7.5 million because of the ½-cent sales tax increase approved by the voters. The CFA/CSF can be raised administratively and helps fund certain government functions, but Director Bennett questioned whether \$7.5 million in new money into the fund was needed to administer the additional revenue from the ½-cent sales tax. Approximately \$28 million in highway revenue currently goes into the CFA/CFS annually. Senator Sample suggested cutting or eliminating the amount of highway revenue that goes into the CFA/CFS to provide additional revenue to the state's roadways was something the Working Group could explore.
- Director Bennett questioned whether all the money going into the Storage Tank Fund administered by ADEQ was being used or if some of that money could be transferred to highways.

- Craig Douglass pointed out that ADEQ also receives money from the Waste Tire Tax; perhaps that could also be looked in to.
- Representative Davis mentioned the 5% rental car tax that currently helps fund public transportation as a source that might need to be explored.
- Guy Washburn suggested reducing or eliminating the sales tax that is currently being charged on road construction materials as a possible way to reduce costs.
- Craig Douglass suggested that the Working Group should identify what constitutes road-user related revenue to see where those funds are currently being used.
- Alec Farmer pointed out that with fuel efficiency increasing and construction costs increasing, but revenue sources declining, we are moving backward. He urged the Working Group to consider funding mechanisms that would stop that backward movement. Senator Sample agreed and suggested some type of indexing tied to the Construction Cost Index.

CONCLUSION

- Chairman Baird closed the meeting instructing the members to focus on short-term (within 2 years) funding options that could generate approximately \$110 million annually net to the AHTD, and for members to send their information and ideas to Tori Gordon of the Governor's staff before the next meeting. The meeting was adjourned.

ACTION ITEMS BEFORE SEPTEMBER 3, 2015 MEETING

- Chairman Baird to check on the possibility of extending the deadline for the mid- and long-term solutions until after the December 15 deadline.
- AHTD to provide more detailed information on the anticipated results of the short-term funding target.
- AHTD to provide an overview of the Partnering Program.
- AHTD to provide a report on how State Aid funds for County Roads and City Streets are distributed.
- Working Group to send short-term funding option ideas to Tori Gordon.

SUMMARY OF RANGES AND USES

Immediate/Short-term Target (within two years)

\$110 million in new annual revenue net to the AHTD (\$170-175 million gross)

Uses	With DRIVE Act*	Without DRIVE Act
Matching Federal Aid	\$55 million	\$15 million
Resurfacing/100% State Funded projects	\$55 million	\$95 million
	(290-320 miles)	(450-500 miles)
Total Federal and State Construction Program	\$685 million (2017)	\$525 million

Mid-Term Target (three to five years)

\$140 million in new annual revenue net to the AHTD (\$215-225 million gross)

\$250 million in cumulative new revenue to AHTD (\$385-400 million cumulative gross)

Uses	With DRIVE Act	Without DRIVE Act
Matching Federal Aid	\$75 million	\$25 million
Resurfacing/100% State Funded projects	\$125 million	\$175 million
	(550-650 miles)	(750-850 miles)
Enhanced Maintenance/Operations	\$50 million	\$50 million
Total Federal and State Construction Program	\$800 million (2020)	\$600 million

Long-Term Target (six to nine years)

\$150 million in new annual revenue net to the AHTD (\$230-245 million gross)

\$400 million in cumulative new revenue to AHTD (\$615-645 million cumulative gross)

Uses	With DRIVE Act	Without DRIVE Act
Matching Federal Aid	\$100 million	\$40 million
Resurfacing/100% State Funded projects	\$140 million	\$200 million
	(650-750 miles)	(850-950 miles)
Enhanced Maintenance/Operations	\$60 million	\$60 million
Capital/Econ. Dev. Improvements	\$50 million	\$50 million
Weight Restricted Facility Improvements	\$50 million	\$50 million
Total Federal and State Construction Program	\$925 million (2024)	\$675 million

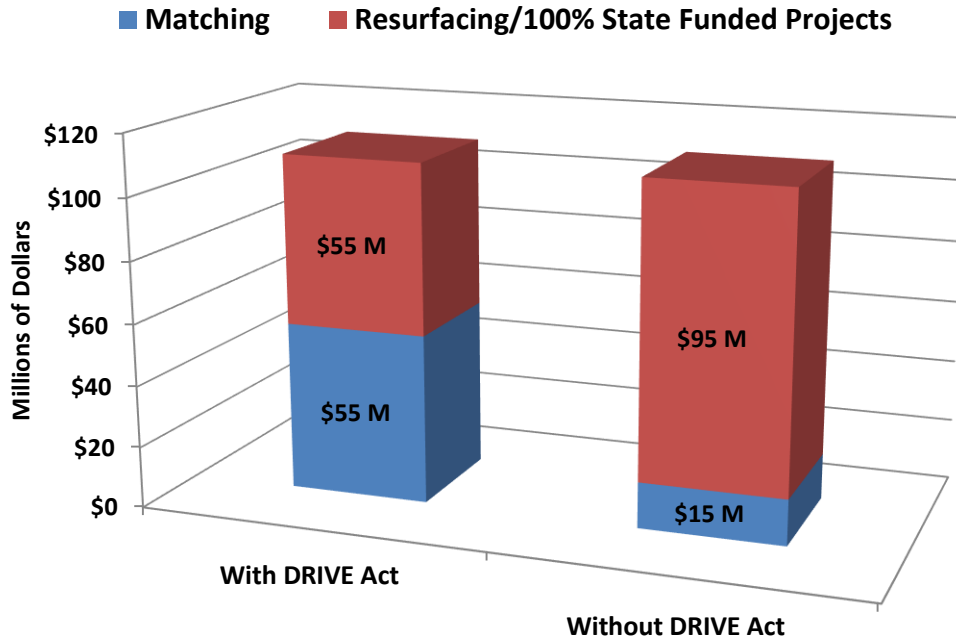
*The DRIVE Act is pending federal legislation that has passed the Senate but not the House. It would provide an increase in the amount of federal funds available to Arkansas, thus increasing the amount of state match required. It would also increase Arkansas' annual construction program.

Ranges, Use, and Benefits of Potential Funding Targets

Immediate/Short-Term Target (within two years)

Range: \$110 million (+/-) net to the AHTD annually
(*\$170-175 million gross needed under current distribution formula*)

Uses:



Benefits:

- Provides adequate additional state funds to ensure that no federal funds would be lost due to our inability to provide the required state match.
- Allows the AHTD to have a minimal resurfacing program similar in size to recent overlay programs if the DRIVE Act passes.
- Allows the AHTD to have a larger 100% state funded program to preserve and extend the life of highways in the absence of additional federal funds if the DRIVE Act fails.
- Would support an annual federal and state construction program* of \$685 million if the DRIVE Act passes, or \$525 million if the DRIVE Act fails.

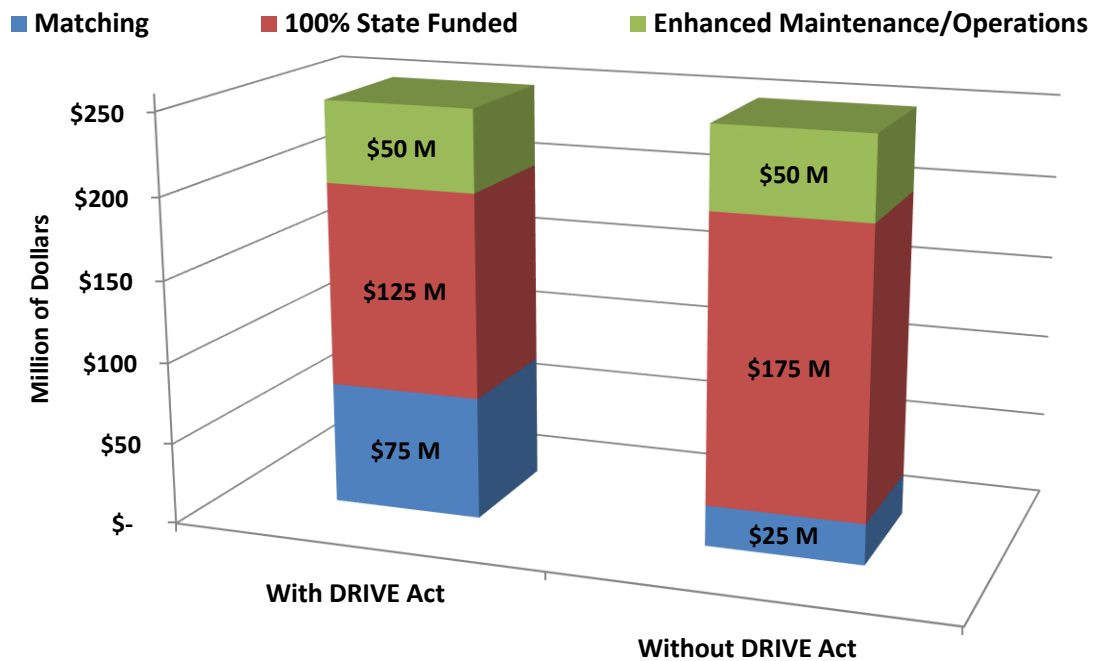
*Annual federal and state construction program consists of federal funds, state match, and other state funds used for construction projects.

Mid-Term Target (three to five years in the future)

Range: \$140 million (+/-) additional net to the AHTD annually
(*\$215-225 million gross needed under current distribution formula*)

When combined with the short-term target amount, this would provide approximately \$250 million in new revenue annually to the AHTD.

Uses:



Benefits:

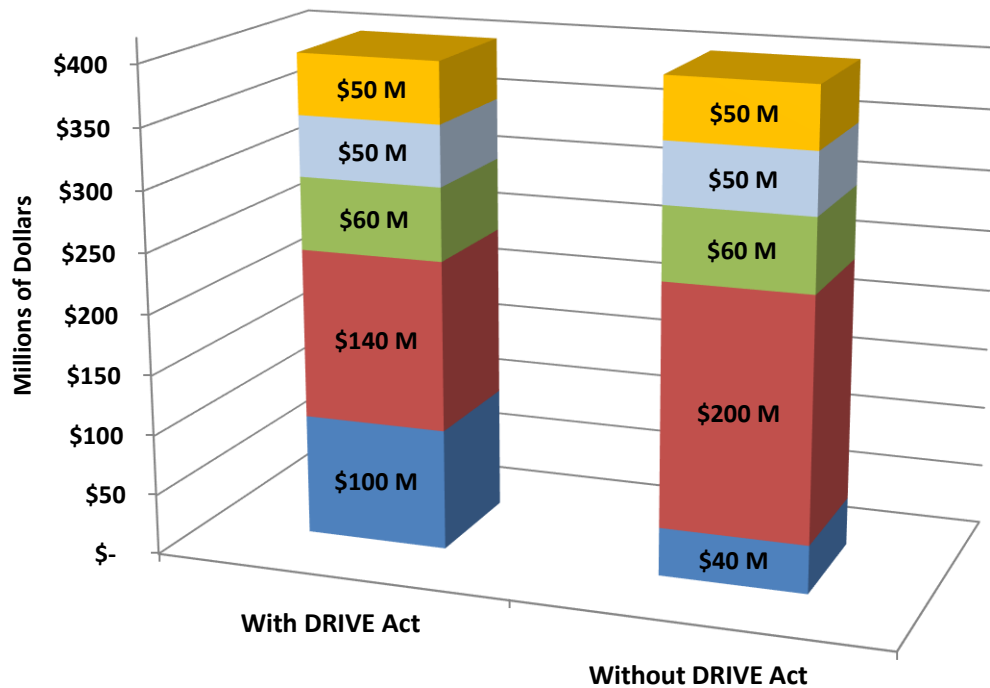
- In three to five years, even more state funds will be needed to match federal aid with or without the DRIVE Act; this level of funding accommodates that.
- Allows a more appropriate state-funded program with or without the DRIVE Act.
- Provides funding for an Enhanced Maintenance/Operations Program that would:
 - ✓ Triple the Department's annual striping program
 - ✓ Increase the mowing frequency from 3 to 4 times per year
 - ✓ Increase funding at the District level for routine or general maintenance
 - ✓ Increase the equipment and facility replacement program to lower the average age of the AHTD's fleet and increase productivity
 - ✓ Expedite the implementation of Intelligent Transportation System (ITS) technologies (Transportation Management Center, message boards, roadway weather information system, etc.)
- Would support an annual federal and state construction program of \$800 million if the DRIVE Act passes, or \$600 million if the DRIVE Act fails.

Long-Term Target (six to nine years in the future)

Range: \$150 million (+/-) additional net to the AHTD annually
(*\$230-245 million gross needed under current distribution formula*)

Uses:

■ Matching ■ 100% State ■ Enhanced Mntc. ■ Capital/Econ. Dev. ■ Weigh Restr. Facilities



Benefits:

- Provides for state match in both scenarios
- Provides an appropriate level of state funded projects
- Continues the Enhanced Maintenance/Operations Program funded under the Mid-Term Target
- Provides an additional \$50 million for capital projects (extra capacity to address congestion, 4-lane grid system projects, etc.)
- Provides an additional \$50 million to address weight restricted bridges and highways
- Would support an annual federal and state construction program of \$925 million if the DRIVE Act passes, or \$675 million if the DRIVE Act fails.

Ultimate Needs and Goal (ten years in the future)

Amount Needed: \$1.68 billion additional net to the AHTD annually
(*\$2.65 billion gross needed under current distribution formula; this is the gap that exists between the AHTD's current funding levels and the identified functional and economic development needs over the next ten years*)

\$1.68 billion in new revenue annually for ten years would yield the following:

- Completion of I-49 and I-69;
- Completion of the entire Four-Lane Grid System, including all Economic Development Connectors;
- No deficient or weight-restricted bridges or highways on SHS;
- Pavement conditions of 'Good' on all highways;
- No major capacity or congestion issues in the state;
- Average age of the AHTD fleet at 8 years; and
- Updated Department facilities statewide.

Improvement Cost Examples

Sealing Job (liquid asphalt and pea gravel; 2-lane road) Sealing does not add strength to a road and adds little if any to its useful life, but it does slow deterioration. It is not preferable for high volume roads.	\$27,000-32,000 per mile
Overlay (approx. 2 inches of new asphalt; 2-lane road) An overlay adds strength and extends the life of a road.	\$180,000-200,000 per mile
Reconstruction (existing location; 2 lanes with shoulders) Consists of new drainage, base, surfacing, and minor widening.	\$3.0-3.3 million per mile
New Construction (new location; 2 lanes with shoulders)	\$3.0-3.3 million per mile
Widening (existing location; 2 lanes to 5 lanes, undivided)	\$3.4-4.8 million per mile \$8 M per mile in floodway

INFORMATION RELEASE



Office of the Director

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
P. O. Box 2261 – Little Rock, Arkansas
Telephone (501) 569-2227

ArkansasHighways.com

Twitter: @AHTD

Contact:
Danny Straessle

NR 15-313
September 1, 2015

MOVING FORWARD: FEDERAL HIGHWAY TRUST FUND BOLSTERED AHTD TO REINSTATE HIGHWAY CONSTRUCTION PROJECTS

Select projects previously withdrawn from 2015 bid openings to be reinstated beginning in October

LITTLE ROCK (9-1) – Almost 30 of the 87 projects withdrawn from bid openings in the 2015 schedule will be reinstated in the October bid opening, according to Arkansas State Highway and Transportation Department (AHTD) officials.

This is made possible by recent legislation enacted by Congress, which extends Moving Ahead for Progress in the 21st Century (MAP-21) until October 29, 2015 and also transfers \$8.1 billion from the General Fund to the Federal Highway Trust Fund (HTF). This short term infusion of funds is projected to keep the Federal Highway Administration (FHWA) from having to implement cash management procedures until the Spring of 2016.

“We would like to thank Arkansas’ Congressional Delegation who all voted in favor of extending MAP-21 and for providing the money needed to keep the HTF solvent for the next several months,” said AHTD Director Scott Bennett. “This will allow some of the delayed projects to be phased back into bid lettings scheduled for October, December, and possibly February 2016. This is great news for the State’s economy as we head into the fourth-quarter of the calendar year.”

Since December 2014, AHTD has been evaluating their cash flow to ensure they could continue to pay contractors for on-going federally funded highway construction projects in the event cash management procedures were implemented this fall. Contractor payments on federal projects are initially paid with state funds, and then the state seeks reimbursement from the HTF for the federal portion (80 percent) of those payments. “With the threat of reduced or delayed federal fund reimbursements looming this fall, we opted to take the more fiscally conservative approach and not let projects to contract that we might have to suspend or cancel in the future because of the inability to make contractor payments,” stated Director Bennett.

-more-

“Our priorities have been to ensure that we do not suspend any ongoing work, that we cover the bond payment for our Interstate Rehabilitation Program, and that we keep our employees working. In forecasting our cash balance with reduced federal reimbursements, we would reach a balance by the end of this year that would not be compatible for meeting these priorities.”

“Other state departments of transportation can tap into other sources of funds, including a line of credit from their general state revenue to keep projects going, but Arkansas cannot,” explained Bennett. “We have no way of raising revenue to offset the reduction, delay or loss of federal dollars that Arkansas depends upon for 70 percent of its highway construction program.”

However, Arkansas is not alone among states that have withdrawn projects from bid openings. The American Association of State Highway and Transportation Officials (AASHTO) reports five states (including Arkansas) have withdrawn \$1.5 billion in construction projects. AASHTO estimates the numbers may actually be larger due to some states not reporting the fact that they have withdrawn projects. In addition, some states have said the lack of federal certainty has prompted them to shift some of their use of funds into shorter-term projects or maintenance, which undermines capacity projects needed to keep up with commerce or population growth.

The short-term infusion of money in the HTF will provide some relief until the Spring of 2016. But, future uncertainty past that date is still a major cause for concern for federally funded projects scheduled for 2016. At risk in 2016 in Arkansas are 130 projects worth an estimated construction value of \$520 million. State Highway officials warn that without a long-term solution, the likelihood of resuming the task of withdrawing of projects from bid openings beginning in early 2016 is a grim possibility.

Although the last time the U.S. Department of Transportation shut down due to expired legislation was in March 2010, it has taken an infusion of over \$73 billion into the HTF since 2008 to avoid reduced or delayed federal fund reimbursements.

Absent from the list of reinstated federal projects are 49 resurfacing projects valued at more than \$50 million, that would have been AHTD’s 2015 Overlay Program. This is because the latest HTF fix comes at a time when the overlay season is winding down and weather is not conducive to completing the work. Director Bennett stated that, “We hope a long-term fix is in place by the Spring so these important projects to preserve our system can also be reinstated.”

The need for additional funding is not exclusively a federal issue. Additional state funds will be necessary to address the transportation needs in our state.

AHTD's Annual Overlay Program is traditionally funded with 100% state funds and has typically ranged between \$30 million and \$50 million. However, because of a shortfall in state highway revenue, this year's Overlay Program had to be financed with federal funds and was subsequently cancelled. It should be noted that the Department has had a 100% State Funded Overlay Program every year since 1980, with the exception of 1981 and 1990, and now 2015. Also, it should be noted that overlays using federal funds require different, and higher, standards, so not every highway in the State qualifies for an overlay using federal funds.

"We hope to have an overlay program next spring," added Bennett. "We have asked Governor Hutchinson for \$35 million of state surplus money to help support and guarantee the program for 2016. Otherwise, at this time we still aren't sure there will be an overlay program next year."

Concerning the shortfall in state revenues, during the 90th Arkansas General Assembly, Governor Hutchinson formed the Governor's Working Group on Highway Funding. This group is exploring the transportation funding problem and will hopefully identify a long term solution that will provide a sustainable source of state revenue for Arkansas' transportation system. "We appreciate the leadership and support of Governor Hutchinson in establishing this working group, and we look forward to the results leading to a long-term, sustainable way to increase our investment in Arkansas' highway system," added Director Bennett.

Projects Reinstated into the October Bid Opening

County	Route	Project Name	Job Number
Boone	-	Main St./Rush Ave. Signal Rehab. (Harrison) (S)	090340
Clay	CR 53	Piggott-West Drainage Strs. Replacement (S)	FA1107
Cleburne	25	Hwy. 25 Spur-Locust Grove (Passing Lanes) (S)	050261
Crawford	162	Hwy. 162 Improvements (Alma) (S)	040456
Crittenden	147	Hwy. 131-North (S)	110557
Cross	284	Branch of Caney Creek Str. & Apprs. (S)	110147
Faulkner	40	Conway South Interchange-Hwy. 365 (Base & Surf.) (S)	080396
Faulkner	65B & 286	I-40-Thomas G. Wilson Dr. (Conway) (S)	080492
Fulton	63	Gut Creek Str. & Apprs. (S)	050274
Grant	291	Moore's Slough Tributary Str. & Apprs. (S)	020543
Independence	167	CR 80 (Antioch Road)-South City Limits Cave City (F)	050214
Lee	131	Ditch at L.M. 1.85 Str. & Apprs. (S)	110570
Little River	32 & 32Y	Hwy. 32/Hwy. 32Y Signal (Ashdown) (S)	030440
Mississippi	18	Hwy. 18 Improvements (Manila) (S)	100654
Montgomery	CR 34	Mazarn Creek Str. & Apprs. (S)	BR4906
Phillips	44	Bee Bayou Str. & Apprs. (S)	110575
Pope	7	Dover-North (Passing Lanes) (S)	080422
Pope	7	Newton Co. Line-South (Passing Lane) (Ph. II) (S)	080464
Pulaski	10 & 430	I-430/Hwy. 10 Interchange Impvt. (L.R.) (S)	061333
Pulaski	30 & 430	I-30/I-430 Interchange Impvt. (L.R.) (Ph. II) (S)	061437
Searcy	74 & 377	Gourd & Granny Creek Strs. & Apprs. (S)	009831
Stone	66	South Sylamore Creek-East (Passing Lane) (S)	050289
Union	167	El Dorado-Hwy. 335 (S)	070280
Washington	16	Middle Fork White River Str. & Apprs. (Fayetteville) (S)	040641
Washington	112	Razorback Rd.-Garland Ave. (Hwy. 112) (Fayetteville) (S)	040582
Yell	Various	Hwy. 7-West (S)	FA7518
Various	Various	Shoulder Rumble Strips/Stripes (Sel. Secs.) (Dists. 1, 5, 6, 10) (S)	012228

ARKANSAS' UNDERGROUND STORAGE TANK (UST) PROGRAM **– STATE FUNDS**

Petroleum Storage Tank Trust Fund

Statutory Limits –

- Ceiling - \$15 million; Floor - \$12 million
- Both limits based on *adjusted* fund balance (i.e., balance “. . . as adjusted to reflect the obligations and liabilities of the fund. . .”) See A.C.A. § 8-7-906
- Funded by 3/10ths of one cent environmental assurance fee, collected at wholesale level

Fund Use –

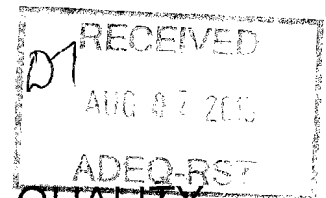
- Financial Assurance for releases from eligible tanks (Federal requirement for UST Program)
 - Reimburse tank owners for corrective action
 - Pay third parties for compensatory damages
- Pay costs of ADEQ conducting state-lead corrective action
- Other authorized uses include State match share mandated by federal Resource Conservation & Recovery Act (RCRA) of 1976 and to pay costs incurred by PC&E Commission, ADEQ, AG's office or Advisory Committee on Petroleum Storage Tanks in performance of duties under A.C.A. § 8-7-901 *et seq.*

Issues and Concerns Related to Use For Highway Funding –

- Insufficient funding available for Regulated Storage Tank Program and Financial Assurance ^{Note 1}
- Loss of Federal program funding (~\$1 million, annually) for prohibited diversion of funds from a State financial assurance mechanism used to meet Federal financial assurance requirements ^{Note 2}
- Increased costs to tank owners and operators for alternative financial assurance if federal approval for State Fund is withdrawn due to insolvency or diversion ^{Note 3}
- Can funds generated by an environmental fee be used similarly to funds generated by Motor Fuel Tax? (Simple majority vs. *Supermajority* of Arkansas General Assembly) ^{Note 4}

Notes—

1. *The Petroleum Storage Tank Trust Fund is used by Arkansas underground storage tank (UST) owners and operators to meet financial responsibility requirements of the federal Underground Storage Tank program. Federally approved state programs such as Arkansas' which use State Funds for financial assurance must maintain adequate funding to meet federal requirements for State Funds. EPA reviews the Petroleum Storage Tank Trust Fund annually to determine its soundness as an approved financial assurance mechanism for owners and operators of USTs in Arkansas. If EPA determines a State Fund is insolvent or inadequate, it may withdraw the States' authorization to use the State Fund to meet financial assurance requirements.*
2. *The Underground Storage Tank Compliance Act, part of the federal Energy Policy Act of 2005 (see Public Law 109-58) prohibits diversion of state financial assurance funds (Sec. 1522). Further, EPA is prohibited from distributing grant funds to any State that has diverted funds from a State Fund or State financial assurance program for purposes other than those related to the regulation of underground storage tanks. Arkansas receives approximately \$1,000,000 annually in federal grant funding for its UST program. That grant funding would be jeopardized if any funds were to be diverted from Arkansas' Petroleum Storage Tank Trust Fund.*
3. *If EPA withdraws Arkansas' authorization to use the Petroleum Storage Tank Trust Fund to meet financial assurance, another mechanism must be used by UST owners and operators to meet their financial assurance responsibilities. Other financial assurance mechanisms, e.g., private insurance, guarantees, surety bonds, etc., are almost certain to cost substantially more to obtain for businesses with USTs.*
4. *The Petroleum Storage Tank Trust Fund is funded by an environmental assurance fee. (See A.C.A. § 8-7-906) The most recent modification of the environmental assurance fee was by Act 670 of 2005 which increased the maximum collection rate of this fee from \$0.002 per gallon to \$0.003 per gallon. Act 670 passed with a simple majority in both the House and Senate. It is questionable, then, whether monies from the Petroleum Storage Tank Trust Fund could be used to supplement motor fuel tax-generated funding which is subject to approval by a supermajority of the Arkansas General Assembly.*



ARKANSAS DEPARTMENT OF ENVIRONMENTAL QUALITY

RST Division - Petroleum Storage Tank State Trust Fund Financial Status Report for Period Ending July 31, 2015

I. Fund Balance on July 1, 2015		\$	22,793,338.54
II. Receipts			
1. Previously reported	\$ 141,874,756.29		
2. July receipts	\$ 631,584.97		
Total receipts to date		\$	142,506,341.26
III. Expenditures			
1. Previously reported	\$ 119,081,417.75		
2. July expenditures	\$ 303,540.78		
Total expenditures to date		\$	119,384,958.53
IV. Fund Balance on July 31, 2015		\$	23,121,382.73
V. Interest			
1. Previously reported	\$ 9,780,758.80		
2. July interest	\$ 3,369.86		
Total interest to date	\$ 9,784,128.66		
VI. Total investments on July 31, 2015		\$	21,000,000.00
VII. Funds available on July 31, 2015		\$	2,121,382.73

STATUS OF TRUST FUND

Fund balance on 7/31/15	\$ 23,121,382.73
Reserve for emergency projects	\$ 350,000.00
Current claims received	\$ 1,315,207.73
Claims approved but unpaid	\$ 261,823.06
Other corrective action obligations (estimated)	\$ 8,815,322.86
Potential third party obligations (estimated)	\$ -
Adjusted balance	\$ 12,379,029.08

CERTIFIED TRUE AND CORRECT


Keith Reed

Fiscal Division Chief

Off the top Deductions for State Central Services and Constitutional Officers Fund

At least 3% of all General and Special Revenues are deducted off the top to pay for the expenses of the Constitutional Officers and the State Central Services Funds, as authorized by §19-5-202(b)(2)(B)(i) and 19-5-203(b)(2)(A), respectively. The deduction can be increased or decreased up to one additional percent (1%) as determined by the Chief Fiscal Officer of the State with Arkansas Legislative Council approval.

Currently the deduction is 2.2% for State Central Services and 1% for the Constitutional Officers Fund, for a total of 3.2%.

State Central Services: This fund pays for the salaries and operations of those agencies considered essential to State Operations, which include the offices that support the Constitutional Officers, the Bureau of Legislative Research, Legislative Audit, as well as the Claims Commission and DFA – Management and Revenue Services divisions.

- Administrative Office of the Courts
- Arkansas Senate
- Arkansas State Claims Commission
- Auditor of State
- Bureau of Legislative Research
- Commissioner of State Lands
- Court of Appeals
- Department of Finance and Administration
- Division of Legislative Audit
- Governor's Mansion
- House of Representatives
- Office of Prosecutor Coordinator
- Office of the Attorney General
- Office of the Governor
- Office of the Lieutenant Governor
- Public Defender
- Secretary of State
- Supreme Court
- Treasurer of State

Constitutional Officers Fund: This fund pays for the salaries of those officers whose positions are established within the State's Constitution. Also provides additional funding for the operations of the House of Representatives and the Senate.

Funding Issues

The total deduction was increased from 3% to 3.3% in FY12 due to the fund balance falling to a low level. It was lowered in FY14 to 3.2% as the fund balance improved. Each 1/10th of a percent equals around \$6 million of general revenue and \$4 million of special revenue.

Future impacts to State Central Services:

- Additional District Court Judges – additional \$2.4M annually
- Independent Citizens Commission – additional \$6.2M annually
- Shortfall of the AOJ Fund
 - Public Defenders Commission Trial Officers
 - AOC Dependency Neglect

Special Revenue Fees generated by Highway Revenues

FY	RRA0000 Operations	RRB0000 State Aid Roads	RRC0000 State Aid Streets	RRA4LHC 4-Lane Bond Acct	TOTALS
2010	\$ 12,302,759.65	\$ 633,426.17	\$ -	\$ -	\$ 12,936,185.82
2011	12,634,117.41	606,607.34	-	-	\$ 13,240,724.75
2012*	13,885,152.14	662,621.56	-	-	\$ 14,547,773.70
2013*	13,259,278.20	649,797.32	369,059.34	-	\$ 14,278,134.86
2014**	13,639,791.62	644,778.90	644,580.93	5,161,691.19	\$ 20,090,842.64
2015**	13,539,919.88	636,210.22	636,403.99	5,469,165.51	\$ 20,281,699.60
Average	\$ 13,210,169.82	\$ 638,906.92	\$ 550,014.75	\$ 5,315,428.35	\$ 19,714,519.84

Actual State Central Services Expenditures and Total Available Funding - including Beginning Year Fund Balances

	2010	2011	2012	2013	2014	2015
Expenditures	\$ 288,393,475.30	\$ 291,445,861.00	\$ 311,090,775.00	\$ 310,566,053.00	\$ 310,285,777.00	\$ 310,285,777.00
Available Funding	305,131,066.40	304,309,310.00	324,025,100.00	331,101,474.00	335,558,548.00	344,644,505.00
Fund Balance (Actual)	16,737,591.12	12,863,448.00	12,934,325.00	22,535,421.00	19,221,224.00	34,358,728.00
Fund Balance Increase (Decrease)		(3,874,143.12)	70,877.00	9,601,096.00	(3,314,197.00)	15,137,504.00

Annual Effect of removing Highway Revenues

	2010	2011	2012	2013	2014	2015
Expenditures	\$ 288,393,475.30	\$ 291,445,861.00	\$ 311,090,775.00	\$ 310,566,053.00	\$ 310,285,777.00	\$ 310,285,777.00
Revenues	267,724,378.56	286,413,976.00	309,987,394.00	315,123,015.00	312,411,997.00	324,875,320.00
LESS HWY REV	(12,936,185.82)	(13,240,724.75)	(14,547,773.70)	(14,278,134.86)	(20,090,842.64)	(20,281,699.60)
Fund Balance	(33,605,282.56)	(18,272,609.75)	(15,651,154.70)	(9,721,172.86)	(17,964,622.64)	(5,692,156.60)

Cumulative Effect of removing Highway Revenues - if removed FY10 Forward

Fund Balance	16,737,591.12	3,801,405.30	(13,313,462.57)	(27,790,359.27)	(32,467,398.13)	(55,872,437.77)
Change in Fund Balance (Actual)		(3,874,143.12)	70,877.00	9,601,096.00	(3,314,197.00)	15,137,504.00
LESS HWY REV	(12,936,185.82)	(13,240,724.75)	(14,547,773.70)	(14,278,134.86)	(20,090,842.64)	(20,281,699.60)
Cumulative Surplus / (Deficit)	3,801,405.30	(13,313,462.57)	(27,790,359.27)	(32,467,398.13)	(55,872,437.77)	(61,016,633.37)

* - 3.3% MCF - HSC Deduction

** - 3.2% MCF - HSC Deduction

COUNTY AND MUNICIPAL FUEL TAX FUNDS

STATE AID ROAD PROGRAM (COUNTIES)

The State Aid Road Program, providing assistance to counties, is a statutory program funded by 100% of the revenue in the State Highway Special Construction Fund, funded with one cent of the gasoline and diesel tax. For fiscal year 2015 this amounted to \$19,245,360. State aid roads are those on major and minor collector routes not on the State Highway System that connect with local trade areas or state highways. The state aid road system is comprised of 9,950 miles of eligible roads designated by the several county judges. State Aid Road funds are used to construct, improve, widen, straighten, surface or reconstruct State Aid roads.

Counties are allocated funds based on the following distribution formula:

- 50% divided equally among the 75 counties;
- 25% divided in proportion that the area of the county bears to the area of the State; and
- 25% divided in the proportion that rural population of the county bears to the rural population of the State.

To initiate an eligible project, the County Judge makes a request to the Arkansas State Highway and Transportation Department's State Aid Division. Following an on-site inspection and cost estimate, a 5% deposit is submitted by the county so that plans may be developed. Funding of a project is 90% State Aid and 10% county. The AHTD provides necessary engineering services.

STATE AID STREET PROGRAM (CITIES)

The State Aid Street Program, to provide assistance to municipalities, was re-authorized with the passage of Amendment 91 to the Arkansas Constitution by referendum in 2012. Pursuant to Section 20 of Amendment 91, one cent of the gasoline and diesel tax was permanently dedicated to the Program, and in the most recent fiscal year produced \$19,251,221¹. The state aid street system consists of major and minor arterial collector routes not on the state highway system feeding into local trade areas or the state highway system as designated by the several mayors or chief executives of the respective municipalities. A State Aid Street committee has been established in accordance with § 27-72-401 *et seq.*, which receives requests and selects the State Aid Street projects. The Committee consists of nine mayors appointed as follows:

- Three mayors appointed by the Governor;
- Three mayors appointed by the Speaker of the House of Representatives; and

¹Due to accounting differences between funds the State Aid Street Program Funds differ slightly, although over time this will be corrected.

- Three mayors appointed by the President Pro Tempore of the Senate.

Additional requirements set out by law:

- The Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate must each appoint at least one mayor from a municipality with a population in excess of 25,000.
- Each appointed mayor must serve a term of four years.
- A mayor may serve two terms of four years.
- Committee members serve staggered terms..
- The Committee must select a chair to serve a term of one year.
- A quorum is necessary to transact the business of the Committee.
- The Committee must meet at least twice per year.
- The Committee may establish a formula or criteria to facilitate the identification and selection of State Aid Street projects.

The Committee has set the following for project selection criteria:

- In order to qualify for funding, roadway conditions for overlays must be fair, fair to poor, or poor.
- Construction funding for projects is capped at \$250,000. If bids exceed the cap, then the city must agree to pay the overage amount or scale back the project.
- Projects requiring design work will be granted preliminary approval but not considered for construction funding until the engineering has been completed. The \$250,000 cap will apply to these projects.
- Projects awarded funding for less than \$250,000 but whose bid amounts are 10 percent higher than the approved estimated project cost must come back to the Committee for approval.
- Municipalities may submit one project per calendar year basis, but priority has been given to those municipalities that have not had a project previously funded.

TURNBACK

The Municipal Aid Fund and County Aid Fund are established pursuant to the Revenue Stabilization Law, § 19-5-101 *et seq.*, and are made up of several sources including 30% of highway revenues, apportioned equally to each fund. For fiscal year 2015, the highway revenue portion totaled \$178,113,260, or \$89,056,630 each. These funds are paid directly by the State Treasurer to the respective Counties and Cities, using turnback factors formulated by the Department of Finance and Administration, based upon statutory requirements.

County Turnback

County turnback is determined according to five factors listed in § 27-70-207(b)(3). Briefly stated, relative portions of the County Turnback Fund are weighted and distributed as follows:

- (31%) of the amount based upon physical area;
- (17.5%) of the amount based upon State motor vehicle license fees collected in the prior calendar year;
- (17.5%) of the amount according to population based upon the most recent federal decennial census;
- (13.5%) of the amount according to rural population based upon the most recent federal decennial census;
- (20.5%) of the amount shall be divided equally among the seventy-five (75) counties.

Municipal Turnback

Municipal turnback is determined according to § 27-70-207(c)(2), with relative portions of the Municipal Aid Fund distributed on the basis of population according to the most recent federal census, in the proportion that its population bears to the total population of all cities and towns. However, the Arkansas Code allows for cities and towns to contest census figures and undertake a special census².

Authorized Uses

Generally speaking, the highway funds distributed pursuant to the highway revenue distribution formula may be used for:

Transportation projects as deemed beneficial to include without limitation:

- The maintenance, construction, and reconstruction of roads and bridges and for other surface transportation;
- Public transportation; or
- Any other transportation system improvement or service within the political subdivision.

In addition, counties may use these funds to:

- Construct and maintain parking for county courthouses; county administration buildings, county health units, and county parks;

² Since 2010, seven cities have contested their population figures.

- Construct and maintain sidewalks that serve county courthouses, county administration buildings, county health units, county parks, public schools, and other publicly owned property; and
- Install and maintain traffic signals where needed to preserve public health, safety, and welfare.

state	question	answer	amount
Georgia	Changed the way the tax is calculated on gas and diesel.	It is our understanding that Georgia changed their fuel tax calculation to a fuel tax system that is the same as currently employed in Arkansas. Georgia previously had a fuel tax system that included a periodic adjustment based upon changes in price.	_____
	The bill will also exempt motor fuel sales from state sales tax and permit counties and municipalities to impose a \$0.03/gallon excise tax.	Arkansas does not currently impose state or local sales taxes on gasoline or diesel. We have no information on which to base a projection for local fuel taxes.	_____
	Heavy trucks: Pay an annual highway impact fee of \$50 to \$100 depending on the weight of the vehicle.	Georgia levied a \$50 annual fee on trucks with a gross vehicle weight rating of between 15,500 and 26,000 lbs. and a fee of \$100 on vehicles rated at 26,001 and up. This fee does not apply to vehicles registered under the International Registration Plan (IRP). If Arkansas were to levy a comparable fee, the anticipated additional annual revenue would be approximately \$4.9M.	\$4.9 million per year
	Noncommercial electric vehicles: Pay a \$200-per-year fee.	Georgia levies this fee on vehicles that are purely electric. The fee is not collected on vehicles that operate on both gas plus electric motor batteries such as plug-in hybrids and conventional hybrids. DFA has been unable to prepare a revenue impact for this fee in the time provided; however, it is our opinion that collections from a similar fee in Arkansas would generate no more than \$200,000 per year at current electric vehicle registration levels.	No more than \$200,000 per year
	Commercial electric vehicles: Pay a \$300-per-year fee.	This fee applies to the same types of vehicles as included in the non-commercial electric vehicles. DFA has been unable to prepare a revenue impact for this fee in the time provided; however, it is our opinion that collections from a similar fee in Arkansas would generate no more than \$300,000 per year at current electric vehicle registration levels.	No more than \$300,000 per year
	Hotels and motels: \$5 per night fee.	Georgia imposes a \$5 fee for each hotel room rental per night and dedicates the proceeds to fund transportation projects. If Arkansas were to adopt a similar \$5 fee, the anticipated revenue collections would be between \$45M and \$50M per year.	Between \$45 million and \$50 million per year

state	question	answer	amount
South Dakota	\$0.06/gallon increase in motor fuel taxes.	Each 1¢ increase in the Arkansas fuel tax on gasoline would result in additional revenue of \$14.3M based on FY2015 consumption levels. In addition, each 1¢ increase in the Arkansas fuel tax on diesel fuel would result in additional revenue of \$6.3M based on FY2015 consumption levels. A tax increase of 6¢ per gallon would increase gasoline tax revenues by \$85.8M per year and diesel fuel tax revenues by \$37.8M per year based on current consumption levels.	Gasoline tax increase by 6¢/gal = \$85.8 million/year Diesel fuel tax increase by 6¢/gal = \$37.8 million/year
	1% added to the excise tax on vehicle purchases, making it 4%.	An increase of 1% in the Arkansas sales and use tax on motor vehicle purchases would result in additional annual revenue of approximately \$61.8M. This amount would fluctuate from year to year based on vehicle sales volumes.	\$61.8 million per year
	Increased license plate fees by 20% on noncommercial vehicles.	Increasing the current motor vehicle registration fees for passenger cars and trucks would result in additional annual revenue of approximately \$10.3M.	\$10.3 million per year
Utah	Replaced the current gas tax of \$0.245/gallon with a 12% tax on the average rack price of a gallon of gas, effective Jan. 1, 2016. For purposes of calculating the fuel, the average rack price cannot fall below \$2.45/gallon.	If Arkansas were to replace its current motor fuel tax with a tax structured in the same fashion as the Utah tax, the increased tax collections over the most recent annual fuel tax collections would be \$156M per year for both gasoline and diesel. This estimate assumes that the rack price for both gasoline and diesel will remain below \$2.45 per gallon for the foreseeable future.	\$156 million per year
	\$0.06/gallon increase in compressed natural gas & liquefied natural gas tax, gradually over 4 years beginning in 2016.	Based on current consumption levels, a tax increase of 6¢ per gallon would generate additional collections of approximately \$60,000 per year.	\$60,000 per year
South Carolina	Proposed a \$0.10 cent per gallon increase in the fuel tax offset with a corresponding reduction in the income tax.	Each 1¢ increase in the Arkansas fuel tax on gasoline would result in additional revenue of \$14.3M based on FY2015 consumption levels. In addition, each 1¢ increase in the Arkansas fuel tax on diesel fuel would result in additional revenue of \$6.3M based on FY2015 consumption levels. Although the increased fuel tax revenue would be general revenue to the Highway Department, cities, and counties, the reduction in income tax collections would reduce state general revenues. If gasoline tax was increased by 10¢ the revenue gain would be approximately \$143M and a 10¢ increase in diesel tax would yield approximately \$63M additional revenue each year based on current fuel consumption levels.	Gasoline tax increase by 10¢ = \$143 million/year Diesel tax increase by 10¢ = \$63 million/year